Bridging the Gap: How to Finance Universal Access to Housing by 2030

World Bank Group Support for Housing Finance

An IEG Learning Product
The global housing landscape will change dramatically over the next two decades
Currently, **200 million families** are ill-housed and live in slums

If nothing is done, this gap will increase over fourfold by 2020
By 2025, 1.6 billion people living in urban households around the world will occupy crowded, inadequate, and unsafe housing, or will be financially stretched.
Within two decades, the global middle class will increase from under 2 billion consumers today, to nearly 5 billion.
Yet, housing is frequently unaffordable to all but the top earners.
Access to Housing Finance remains a challenge in the developing world...
Let's look at some examples...
PERU - 2008

A poorly built retaining wall fell on Graciela’s family home, resulting in its total collapse. Graciela and her husband both had jobs.

However, Graciela was self-employed at the time and was unable to include her income in the joint mortgage application she filed with her husband for the reconstruction of their home.

As a result, the family did not qualify for a housing loan at the time.

Many middle income families cannot access housing loans despite having the resources.
Raheez Mohammed and his family lived in a rented house in a slum in India. They had one wish: to build a permanent home for their family.

Raheez is a self-employed business owner who earns less than $400 a month. At the time, he had no formal proof of income, and no capacity to buy a new home all at once.

An IFC supported Housing Finance Company helped Raheez by offering a product that corresponded to his needs, preferences, and capacities. He received a loan that allowed him to incrementally construct his home.
However, not everyone is as lucky as Raheez…
Mortgage markets remain weak and underfunded in developing countries...
In order to address the global housing gap, the World Bank Group is implementing an integrated approach, taking into account supply and demand factors.
However, the World Bank Group’s (WBG) resources are limited relative to the scale of the challenge.

The WBG’s housing finance portfolio, volumes, and staff are below crisis levels.
$5.2\text{ BILLION}

World Bank Group Support

$9-11\text{ TRILLION}

Global Housing Gap
This means that the World Bank Group has to apply resources strategically and be catalytic to make a real impact in the sector.
What IEG learned........
The IEG review found that strategically, the World Bank Group is focused on low housing finance penetration countries: about 90% of its projects are in countries with the lowest finance penetration rates.
The World Bank Group is focusing on countries with the most need

A large share of World Bank Group projects target countries with lowest and low housing finance penetration rates.

Level of Housing Penetration (Quartiles):
- Lowest: 28%
- Low: 60%
- Medium: 9%
- High: 2%
But, the gap remains wide

Almost 60% of countries with lowest levels of housing penetration are not supported by World Bank Group interventions.

A large share of countries do not have WBG support.
Lessons from Experience
So, what can we learn from the World Bank Group’s experience in supporting housing finance?
VIETNAM
Understanding market conditions and the existing gap has proven crucial to project design and targeting.

In the case of Vietnam, the World Bank Group provided a local currency credit line of $50 million to a commercial bank that was based on the use of a long-term cross currency swap.

The use of swaps was inadequate in Vietnam, where a real market for such swaps does not exist and the financial system essentially operates on a short-term basis.
WEST BANK & GAZA
Some preconditions must be in place

There are preconditions that have to be in place for a housing market to succeed.

- Avoidance of severe inflation rates
- Existence of a sound regulatory and policy framework
- Presence of financial infrastructure
- Adequate risk assessment and management
- Competitive lending

In the West Bank & Gaza, the IFC supported the establishment of a mortgage institution when there was an unresolved land ownership issue that needed to be addressed first.
Timing and Sequencing are key

We live in an imperfect world and preconditions are not always there. When this happens timing and sequencing interventions adequately is what matters.

• In Colombia, IFC and the world Bank helped the government develop a new housing law,
  • the law contained the regulatory framework for asset securitization,
  • then, the IFC supported the creation of a securitization company.

• India, is also a case where timing and sequencing was important to expand low income housing.
  • The World Bank Group first supported analytical work, which was followed by World Bank technical assistance to strengthen the capacity of the national housing bank and IFC technical assistance to strengthen capacity of housing finance companies and microfinance institutions.

• IFC investments And WBG support is ongoing.
MOROCCO
Gaining the commitment of key players is also vital.

In Morocco, for example, the government and World Bank succeeded in sustaining a low-income housing program, primarily because there was **strong commitment on the part of key actors within the country.**
Key Findings
Primary Market Interventions

• When banks have been unable or unwilling to lend, a case can be made for Non-Banking financial Institutions (NBFIs).

• NBFIs have advantages:
  
  Focus and expertise in the mortgage business.

  Can pull commercial banks into the business and enable market transformation.

• NBFIs have strategic weaknesses that can endanger their long-term viability:

  In order to remain competitive, they might need to diversify their funding sources, expand, or convert into a bank.

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<thead>
<tr>
<th>NBFIs</th>
<th>Mexico</th>
<th>India</th>
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<tbody>
<tr>
<td>NBFIs were unsuccessful in Mexico:</td>
<td>In India, they were/are more resilient:</td>
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<tr>
<td>• Due to overdependence on capital markets for funding,</td>
<td>• Diverse mix of funding</td>
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<td>• poor government oversight, lack of prudential regulation, excessive risk taking,</td>
<td>• Adequate prudential regulations</td>
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<td>• and competitive pressures.</td>
<td>• Lending conservatively</td>
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Capital Market Interventions

Success in securitizations requires a developed government bond market and a need of lenders for capital relief.

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<th>Securitizations</th>
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<td><strong>Colombia</strong></td>
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<td>• The country had a relatively developed government bond market and lenders with a clear need for capital relief.</td>
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<td>• As the country was emerging from a financial crisis, the bank owners of the company securitized assets were eager to move assets off balance sheet.</td>
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Liquidity facilities are more helpful in countries with shallow bond markets but still require benchmark yield curves, institutional investors, and market liquidity.

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<tr>
<th>Jordan</th>
<th>Egypt</th>
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<td>• The country had a small but liquid bond markets and mortgage lenders in need for long-term finance.</td>
<td>• The facility was able to develop the mortgage market.</td>
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<td>• At time of evaluation the number of lenders increased from 1 to 10 from 6 to 12-15 years.</td>
<td>• The market grew significantly from 10 million to 740 million by project closure.</td>
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<td>• Mortgage loans went from 2.5% to 7%.</td>
<td>• But hasn’t been able to issue bonds as institutional investors seem reluctant to invest in non government debt.</td>
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<td>• Situation has worsened with macroeconomic instability and the appearance of a new government program raising issues of sustainability.</td>
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Affordable Housing Interventions

• Targeting is crucial
  – In Egypt, the World Bank project targeted low-income housing when there is no mortgage financing in the market.

• Avoid foreign currency loans
  – The IFC supported an institution that extended foreign exchange (FX) loans to borrowers earning in local currency, which is devaluated by the country, raising risk and concerns about affordability for vulnerable segments of the population.
Going forward
Going forward - Challenges ahead

If nothing is done the housing landscape will get worse

Inadequate housing will worsen.

The access to housing for all SDG goal will unlikely be achieved by 2030.

Housing gap will widen.
What Works

- Know the market, target appropriately
- Binding preconditions go first.
- Understand compensating factors, timing, sequencing matters
- Work with partners, find champions

Join the conversation on Twitter using #housing4all.

Thank you!
IEG is an independent unit within the World Bank Group, evaluating its activities to find out what works, what doesn’t work, and the reasons why. Its recommendations aim to help improve the contributions of the Bank Group to development results.